



COVID-19 shock: What lessons can we learn for competition and global markets?

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Host: Robin Allison Davis

Speaker: Frederic Jenny

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**COVID-19 shock: What lessons can we learn
for competition and global markets?**

Robin Allison Davis [00:00:05] Welcome to OECD podcast, where policy meets people. The COVID-19 pandemic has shocked our world, over two million people have been diagnosed with the virus and some three billion people worldwide are under lockdown or other restricted movement orders. Our health care systems are under intense pressure and the economy is suffering badly, too, as workers stay at home, output stalls and consumer spending nosedives. Trade, investment, supply chains, travel, even the world economy seems to be in quarantine. What are the risk and what can policymakers do to save the situation and prevent a deeper crisis? Is a new approach needed? I'm Robin Davis. To help us explore the issues, I'm joined by Frederic Jenny, a professor of economics and the chair of the OECD Competition Committee. Thank you for joining us.

Frederic Jenny [00:01:02] Thank you very much.

Robin Allison Davis [00:01:04] Professor Jenny, why have our economy has been so affected by the coronavirus?

Frederic Jenny [00:01:09] The COVID crisis has been a terrible shock. It has been unexpected. It has been brutal. It's been devastating both on our health systems but also on our economies. And in a time of crisis, markets tend to act sluggishly. A number of countries were desperate for masks or they were desperate for respirators, or they were desperate for the chemicals that are needed to test for the disease. But they didn't have production facility. They were relying on mostly China to produce those goods and to deliver them to all markets. And it turned out to be a very sluggish response. The reason for it being that the good part of China was under confinement and that those industry could not deliver. So that should alert us to the fact that there are circumstances where we can't entirely rely on markets to deliver the goods that we're hoping for.

Robin Allison Davis [00:02:12] Some say that globalisation is to blame. Are they right? I would think that globalisation would, for example, boost the supply of masks and make them easier to buy.

Frederic Jenny [00:02:22] Globalisation has been a source of great advances, economic advances in the world. Hundreds of millions of people have been taken out of poverty thanks to globalisation. But globalisation, of course, makes us more dependent of the countries with which we trade. And this came to a dramatic point during the COVID crisis, because it turned out that a number of countries, particularly in Western Europe, had in fact outsourced all of their production of pharmaceutical products in China. And when China went into a lockdown, there were themselves unable to get the medicine or the medical equipment that they needed. So we've always known that with globalisation comes interdependence, but we've seen that there are cases where this interdependence has to be mitigated. We have to think about how far we want to go before we allow this interdependence. How much do we want to lose our own national sovereignty?

Robin Allison Davis [00:03:26] But pandemics have occurred before. Our rational solutions possible under any scenario? Isn't part of the problem for the economy that we're dealing with a crisis that no one really thought would come, or at least not come this fast?

Frederic Jenny [00:03:39] Economies tend to believe that people will behave rationally. Behavioural economists have told us that this is not always true, that sometimes intuition replaces thinking to inform or decisions. What we have seen during the crisis is that at the public policy level, the same phenomenon occurs. When the crisis hit, there were people dying in hospitals, but there was no time to run the scientific experiments that would have told us which would be the most appropriate drugs to try to fight the virus. So in those cases, scientific thinking was too slow. At the same time, governments had to act, and they acted on their intuition in a non-scientific manner. So we should not overstate the importance of logical thinking, and we should acknowledge the fact that they are both private and public policy decisions, which are made using a different mechanism which are more prone to errors but allow you to go faster when thinking becomes a luxury that you don't have.

Robin Allison Davis [00:04:55] How much do you think the resources of the government affected the decisions they made?

Frederic Jenny [00:04:59] When the crisis hit, we saw that the options that we had, there were very much dependent on past choices, choices which had been made. Well in countries where you had stockpiles of masks or stockpiles of vaccines or stockpiles of the chemicals that you needed for testing in those countries, it was possible to have a strategy of confinement only for the people who were at risk of infecting other people. In countries which did not have those because many years ago they decided not to invest in those stockpiles, there was no way to separate the people who could have the virus from the people who didn't have the virus. And as a result, the whole population had to be confined, which of course, came at a much higher cost from the point of view of the economy. So what this tells us is that we have to think about the fact that when we make decisions today, they are dynamic effects that are going to be felt tomorrow or the day after tomorrow or in the distant future. And we should think ahead, both in terms of what do we want to plan for and how many resources do we want to devote to preventing harm that could happen tomorrow or the day after tomorrow? Maybe there hasn't been enough thinking about this because there was an overreliance on the fact that markets would instantaneously meet or demands.

Robin Allison Davis [00:06:34] Professor Jenny, your work for the OECD focuses on competition. What role can competition policy play in addressing this crisis compared with, say, cooperation?

Frederic Jenny [00:06:45] What we need are two things we need to be able to eliminate price gouging one and we need to make sure that for those products which are very scarce, if we all need, they are distributed in the most effective way to the people most need them. Now, this may require cooperation or collaboration between firms to ensure that the products are not wasted and that they are in fact distributed in the best possible way. So this is a bit of a change of perspective for competition authorities because they traditionally don't like to intervene on prices. And when you're dealing with a problem of price gouging, you have to intervene on prices and because they are very wary usually of any form of cooperation between firms. So we have to draw the line between what is a positive corporation and what is an anti-competitive corporation. We are going to have a lot of firms that are going to be on the verge of bankruptcy, and governments are very keen on keeping employment up, keeping the firms running so that when the situation is better, once the confinement is over, then we can restart the economic machine as fast as possible. So there is going to be a tension there between state aid, on the one hand, to try to preserve the economic system as it is and the desire to make sure that competitive market mechanism eliminated the underperformers and reward the better performance. We've already had gone through something like this,

which was in 2008 after the financial crisis. But now it is again the same issue not only in the financial sector, but in all sectors of economic activities.

Robin Allison Davis [00:08:39] So policymakers must address these medium term economic consequences of the crisis, and we have the tools for that. But what about the longer term scars? What challenges do you see and how can we address those

Frederic Jenny [00:09:58] In the long run already before the crisis started, we already needed massive reallocation of resources, and there were two major reasons. One of them was climate change, so we needed to reorient technologies towards clean technologies. And the second one was the emergence of the digital economy, which required that new technology be adopted in processes and therefore they should be investment in those new technologies. We now have a third reason to want a massive reallocation of resources because we found out that he was not wise to have outsourced some of our industries entirely abroad. And I'm thinking, for example, which is the most obvious example about the pharmaceutical industry, that we should repatriate some capacity of production domestically so that if there is an urgent need, if there is a new pandemic, then we would be better prepared to try to answer and produce either the medicine or test that we need to fight this pandemic, we have more reallocation of resources to do and for this we know that markets work very slowly

Frederic Jenny [00:10:14] I'm not sure we have the time to wait. And in fact, what we probably need is industrial policy to help with this reallocation of resources. Of course, we want an industrial policy which is consistent with competition policy. So this is the agenda for the future.

Robin Allison Davis [00:10:32] Frederic, thank you so much for your insights and thank you for joining us on OECD podcast.

Frederic Jenny [00:10:37] Thank you very much.

Robin Allison Davis [00:10:39] For more information on the OECD response to COVID 19, please go to www.oecd.org/coronavirus. To listen to other OECD podcasts, find us on iTunes, Spotify, Google Podcasts and soundcloud.com/oecd.